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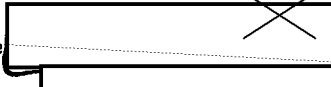

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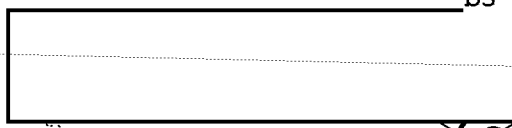
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Alleged Reagan-Iran Hostage Gambit Probed

By Phil Insalata

Of the Post-Dispatch Staff

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Investigators for the House Judiciary Committee have been quietly looking into allegations that Ronald Reagan's presidential campaign made a deal with Iran in 1980 to delay the release of American hostages until after the election.

One of the questions they are examining is whether George Bush, then Reagan's Republican running mate, played a part in any negotiations. Bush says he had no involvement.

ever, a team of five investigators has worked in for months. For the time being, they

House Inquiry Began With Inslaw Battle

■ BUSH DISMISSES as lies allegations linking hostages to election. Page 11A

plan to continue that way.

The Judiciary Committee, chaired by Rep. Jack Brooks, D-Texas, has succeeded in keeping this investigation quiet so far because it emerged only as an offshoot of another case, one that attracts far less attention.

That is the case of Inslaw and its Promis computer software, found in two U.S. Bankruptcy court rulings to have been stolen from Inslaw by the Justice Department. The bitter

Inslaw battle began more than eight years ago as a \$10 million contract dispute.

Inslaw, based in Washington, is owned by St. Louis natives William and Nancy Hamilton. Its Promis software is used by law enforcement agencies to keep track of cases and criminals.

Tuesday — the day before the Justice Department would have been required to release potentially incriminating evidence to Inslaw — the U.S. Circuit Court of Appeals threw out five years of court victories in which a bankruptcy judge ruled that the Justice Department had "stolen" the software through "trickery, fraud

and deceit." The appellate ruling found that the case did not belong in bankruptcy court. The Hamiltons said they would probably "now" appeal the case while launching a massive new suit in a different court.

This time, William Hamilton said, he will present new evidence, including witnesses whose testimony will tie the Inslaw case to the sale of American arms to Iran and to the hostage deal.

Some of these witnesses have already been interviewed by investigators for Rep. Brooks, who opened the software case to find what at first appeared to be a mess left behind by Edwin Meese and his Justice Department.

See DEAL, Page 8

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Deal

From page one

The evidence suggested that the Justice Department had taken the software from the Hamiltons and stopped payment on a contract in which Inslaw was to overhaul the department's massive computerized case-management system.

The Justice Department's motive seemed simple. The court record included evidence that a crony of Ronald Reagan and Meese, private businessman Earl W. Brian, stood to benefit if a company he controlled could pick up where Inslaw had been dumped.

Then, late in 1990, new allegations charged that the software had been delivered by Americans to the military and intelligence agencies of more than a dozen foreign nations.

Arms To Iran Scheme

By late January, sources had told the Post-Dispatch and investigators for the Judiciary Committee that the software was part of an arms-to-Iran scheme. And they said that scheme began when representatives of the Reagan-Bush campaign agreed just before the 1980 election to ship arms to Iran through Israel in return for the guarantee that the hostages would not be set free until after the election.

This assured that the Reagan campaign, headed by veteran intelligence figure William Casey, would not be denied a victory by a last-minute hostage release, according to Gary Sick, who was then national security expert on Iran for then-President Jimmy Carter.

Casey, now dead, became director of central intelligence after Reagan took office.

As the Judiciary Committee investigation continued into this spring, some of the individuals who claimed to have been involved in the illicit trading of Promis software said they also were active in a flood of arms trading that began with the deal to delay the release of the hostages.

Only one scenario makes sense to Inslaw President William Hamilton, who has puzzled over this matter as much as anyone.

"Our software was traded as an asset to generate cash," Hamilton believes. "I believe that money may have been used either to reward people for past assistance in covert operations or to generate money to finance future covert operations, all outside the scope of congressional oversight."

The software would be valued for its use by oppressive regimes to track dissidents, Hamilton said. Or it could track counterintelligence cases and terrorists. It also could be used to monitor the flow of military traffic, including troops and arms.

And as a side benefit, the use of Promis by foreign countries would allow U.S. intelligence operatives to sort through the records of those nations — provided that CIA hackers could penetrate their computers.

\$82 Billion To Iran

Ari Ben-Menashe, a former Israeli intelligence officer who was attached to the military intelligence branch of the Israeli Defense Forces, made sworn statements in the Inslaw case claiming that he saw the software sold to Israel and other countries.

In interviews with the Post-Dispatch, he describes the software as being no different than the arms that flowed from America to Iran.

"You've got to understand," Ben-Menashe said, "the Inslaw case is only a small part. The whole picture is much bigger."

How much bigger?

"Israel purchased and resold arms for \$82 billion to Iran from 1980 into 1987," said Ben-Menashe, who describes his former job as a globe-trotting arms buyer for Israel.

Last year, Ben-Menashe was acquitted in a federal trial in New York, where he had been charged with conspiring to sell Israeli-owned C-130 transport planes to Iran. He won the case in part by proving that he worked for the Israeli government, a claim that had been contested by the prosecution.

Ben-Menashe recalled the events of 1979 and 1980, just after radical clerics staged a successful revolution in Iran. Ben-Menashe said that old contacts he had among Iran's new leaders made him suddenly important to his bosses in Israeli intelligence. They asked Ben-Menashe to nurture his relationships in Iran, he said.

Israel's first shipment of arms to Iran was done without any American involvement, Ben-Menashe said.

"It was 1980, with winds of war between Iraq and Iran, and Iran wanted tires for their F-4 airplanes," he recalled.

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The first shipment was 300 tires delivered through Vienna, Austria, aboard a commercial airline. It was paid for in March and delivered in April, according to Ben-Menashe.

Saddam Hussein's Iraqi army invaded Iran in September 1980, and Ben-Menashe said he was approached for a second shipment of F-4 tires. He said he delivered 300 more in October.

"This time we used a French route," chartering a French aircraft and turning the tires over to the Iranians in that country, he said.

Those shipments generated enough money to pay the Israeli tire maker, transport costs and a kickback to the Iranian buyer. Still, Ben-Menashe said, there was money left over.

"It was the birth of the slush fund, the Extrabudgetary Fund of the Director of Military Intelligence," Ben-Menashe said, adding sarcastically: "Happy birthday."

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From Madrid to Paris

Also born between the time of the first and second shipments was a relationship between Iran and representa-

tives of the Reagan campaign, according to Ben-Menashe and other sources.

Ben-Menashe said he was told of four meetings between representatives of Iran and the Reagan campaign in Madrid and Barcelona, Spain, between June and the end of September 1980. Present were Casey, Iranian leader Mehdi Karrubi and others, Ben-Menashe said. He claims to have been informed of the meetings during the summer of 1980 through two sources: his Iranian contacts and his superior, Rafi Elitan, the Israeli spy-master infamous for his role as controller of convicted agent Jonathan Pollard.

Additional confirmation for the meetings in Spain is provided by Iranian Jamshid Hashemi, who said that his brother, Cyrus, helped set up the meetings in Spain. Cyrus Hashemi, an arms trader, died in London in 1986, less than two weeks after being diagnosed as having a form of leukemia.

Jamshid Hashemi told reporters for the television program "Frontline" that Casey's proposal in Madrid was unmistakable.

"Casey" said the Iranians should hold the hostages until after the election... and the new Reagan administration would feel favorably towards Iran, releasing military equipment and the frozen Iranian assets," Jamshid Hashemi told "Frontline."

The deal negotiated during the Spain meetings was to be sealed in Paris during meetings held between Oct. 17 and 20, 1980, according to sources who claim to have been present.

Ari Ben-Menashe said he had met with Iranians at the Ritz hotel in Paris as a junior intelligence officer whose duty was to "keep a telephone book" by getting the names and communication lines for the Iranians in attendance. Five other Israelis were in his delegation, he said. He also claims to have seen George Bush, then the GOP candidate for vice president, there.

Bush emphatically denies being in Paris and claims the accusations are "bald-faced lies."

Richard Brenneke's Story

Richard Brenneke, a former jet pilot and CIA contract officer in Oregon with expertise in computerized bank transactions, says he was one of the Americans in Paris. Brenneke told the Post-Dispatch that he was called to Paris to advise on how payments could be handled.

This is the same version of events Brenneke gave to a federal judge in Denver in 1988, when he tried to convince the court to go lightly in sentencing a friend, Heinrich Rupp, in a bank fraud conviction. Brenneke told the court that Rupp, too, had been a pilot on the Paris mission and was being framed on the bank charges to silence him.

As a result, Brenneke was indicted on charges of lying to the judge in the Rupp case. He was acquitted last year in a trial at which he explained why he had been invited to Paris.

"My purpose for being in Paris... was to go to a meeting in which the release of the hostages was to be discussed," Brenneke testified. "My function was very simple. I was asked if I would handle the financial transaction, the money movement, if necessary, if this should come to pass. I agreed to do so, and my role was basically one of an observer."

Brenneke said he had been told that Bush was present for the Paris meetings but sidesteps the issue of whether he actually saw Bush there.

Stansfield Turner, director of the Central Intelligence Agency under Carter, said that until recently he was a disbeliever of these accounts. He said his skepticism will be reflected in a forthcoming book. Now, however, he said he was changing his mind. He challenged Bush to silence the matter by producing documentary evidence.

"He could release Secret Service logs for his own whereabouts, and he could have the Republican Party produce similar records for William Casey for the dates in question," Turner said.

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The Floodgates Open

Regardless of what transpired in Paris during October 1980, that point in time marked the opening of a floodgate through which millions of dollars in arms would flow through Israel to Iran.

Reagan was elected in November, and 17 days later, Ben-Menashe said, he was appointed to a top-secret panel called the Joint Mossad-Israeli Defense Forces/Military Intelligence Committee for Israel-Iran Relations. The panel met in secret every week.

"My mandate was to organize a network of people to sell, on a commercial basis, to the Iranians, conventional arms to keep them fighting forever with the Iraqis," Ben-Menashe said.

"But not to sell weapons sophisticated enough for effective use should they be turned against Israel. The flow was not supposed to produce a victor, but a protracted fight" between Iraq and Iran, he said.

Ben-Menashe said he kept a low profile until Jan. 20, 1981, the day Reagan was inaugurated and the 52 American hostages were released.

Then, he said, he began working closely with American intelligence counterparts, including Robert Gates, now a deputy national security adviser to Bush.

A spokesman for Gates said Ben-Menashe's allegations were absolutely false.

Evidence of arms trading to Iran comes from other sources as well.

Gary Stephen Howard, a police officer from Texas with a resume that includes undercover work for federal authorities and contract work for the CIA, testified at Brenneke's trial that he had found evidence of large shipments to Iran.

Howard testified that he had received a sworn affidavit from an Israeli agent attesting to the shipment of

HOSTAGE DEAL



BEN-MENASHE,
Former Israeli
intelligence officer.

**says Israel
monitored 1980
talks between the
Iran and Reagan campaign**



GARY SICK,
Former adviser on Iran
for President Carter

**He says that a
delayed release
of hostages
helped Reagan
win.**



NANCY and WILLIAM HAMILTON, owners
of Inslaw Inc. They are natives of St. Louis;
the company is based in Washington.

**William Hamilton says he will tie the
Inslaw case to sale of American arms to
Iran and to the hostage deal.**



ROBERT GATES,
Former intelligence
officer, now adviser
to Bush.

**Ben-Menashe casts
him as a player in
the arms-to-Iran
scheme.**



WILLIAM CASEY,
Former director of CIA,
deceased.

**Sources claim he
negotiated with Ira
to hold hostages
until after the 1980
presidential election**

weapons from 1980 through 1982,
any of which were shipped through
Iran into Iran with the blessing of the
United States government."

Ben-Menashe said the Iran-Contra
investigation had revealed only a
small portion of massive arms sales
through Israel by the United States.

He details meetings with Robert
Gates in America to assemble "shop-
lists" of weapons, ranging from
armour to artillery shells to rock-
and rifles.

On the first shopping trip, Ben-Men-
ashe said, was relatively simple. He
arranged the shipment of \$52 million
Israeli-made 122 millimeter arti-
llery shells to Iran, delivered in March.
By the end of that year, howev-
er, Israel was unable to deliver Iran's
orders without help from America,
Ben-Menashe said.

From there, the efforts expanded to
provide a steady stream of weapons.
To back up his claims, he offers a 1985
copy of a telex order between
himself and one of his dummy compa-
nies for 20 American helicopters. The
price: \$7 million each.

In this setting, Ben-Menashe de-

scribes the entrance of American
businessman Earl W. Brian, the friend
of Reagan and Meese whom Hamilton
has implicated in the purported theft
of his software.

Brian first tried to sell the software
to Israel shortly after Inslaw signed its
contract with the Justice Department
in 1982, Ben-Menashe said. Brian suc-
ceeded in selling it to Israel in 1987,
according to Ben-Menashe's affidavit.

Earl Brian has repeatedly denied
any involvement in this matter.

In interviews, Ben-Menashe elab-
orates. He supports Hamilton's hypothe-
sis that the software was traded by
many of the same people who dealt
arms, including Chilean arms manu-
facturer Carlos Cardoen. Ben-Men-
ashe claims that the software provid-
ed a convenient way of "laundering"
money from Israel and other nations
back to the United States as payment
for arms.

Michael Reconsciuto

As Ben-Menashe made his intercon-
tinental sales calls, Michael Recons-
ciuto claims he was busy preparing
the software for market.

Like Ben-Menashe, Reconsciuto
said he had witnessed portions of both
the Inslaw matter and the arms-to-
Iran affair.

Reconsciuto is a resident of Wash-
ington state whose resume includes
the design of sophisticated weapons
systems, computerized money laun-
dering and expertise in computer soft-
ware. He now is in federal custody
awaiting trial on drug charges.

In an affidavit of his own, Recons-
ciuto claims to have worked at Brian's
behest to modify the Promis software
for distribution to foreign intelligence
agencies in 1983.

In interviews with the Post-Dis-
patch, Reconsciuto said he wondered
at the time why the software's cre-
ators, Bill and Nancy Hamilton, were
not doing the modifications them-
selves. He said he was told the Ham-
iltons were being excluded because
they constituted a security risk.

Was George Bush in Paris in Octo-
ber 1980? No one has been able to
produce a dated, stamped passport

No compelling evidence has come to
light.

Bush has offered to open his person-
al schedule to prove that he did not
take the trip, which would have pulled
him away from his vice presidential
campaign schedule for a minimum of
18 hours.

Was Inslaw's software pirated for
sale in trade routes established to de-
liver arms to Iran in return for politi-
cally synchronized release of 52
American hostages? Again, the stron-
gest case is only circumstantial.

But Richard Brenneke, celebrating
the anniversary of his victory over
prosecutors who accused him of lying
about the Paris meetings, said he be-
lieves the burden of proof has shifted
and the government should now have
to prove its own innocence.

"One year ago, Brenneke bristled
at the whole government machine
could not prove in a federal court of
law where George Bush was on Oct. 18
and 20, 1980. So I say, 'OK, Mr. Bush,
let's go to it. What new evidence have
you got?'"

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